

An organization of employees whose purpose is to pay lump sum retirement benefits to its eligible members or death benefit to their survivors does not qualify for exemption from Federal income tax under section 501(c)(4) of the Internal Revenue Code of 1954 as a local association of employees.

Advice has been requested whether an association organized for the purposes hereinafter set forth may qualify for exemption from Federal income tax under section 501(a) of the Internal Revenue Code of 1954, as a local association of employees described in section 501(c)(4) of the Code.

The association was organized for the purpose of creating and maintaining a fund to provide benefits for hourly paid employee members on their retirement; or, in case of an employee member's death, to pay benefits to his surviving spouse, or a descending heir previously designated as beneficiary. The organization was formed by the employees of a company located in a particular city. Membership is open to every person who has been employed by the company for a specified period of time, and terminates when employment by the company is terminated for any reason. The amount of benefits depends upon the recipient's age at the time of retirement or death and the number of years worked for the company. Both the retirement payment and the death benefit payment are made in a lump sum.

The organization's activities consist primarily of disbursing retirement and death benefits to eligible employee members and their beneficiaries. Its principal source of income is from profits derived from concessions operated within the company plant. Other income is from interest on a savings account, and the sale of scrap materials given to the organization by the company for that purpose. The organization's disbursements are principally for the payment of retirement and death benefits to eligible beneficiaries.

Section 501(c) of the Code describes certain organizations exempt from income tax under section 501(a) of the Code and reads, in part, as follows:

(4) * * * local associations of employees, the membership of which is limited to the employees of a designated person or persons in a particular municipality, and the net earnings of which are devoted exclusively to charitable, educational, or recreational purposes.

Section 1.501(c)(4)-1(b) of the Income Tax Regulations provides, among other things, that the word "charitable" has the same meaning as it does in the regulations under section 501(c)(3) of the Code.

Amounts disbursed by the organization as retirement and

death benefits in fulfillment of its organizational purposes are not devoted to charitable, educational, or recreational purposes within the meaning of section 501(c)(4) of the Code.

In view of the foregoing, the organization described herein does not qualify for exemption from Federal income tax under section 501(c)(4) of the Code.